

Message Text

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ACTION AF-18

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-02 DODE-00 PA-03 USIA-12 PRS-01 PM-09 RSR-01

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R 181710 Z MAY 73

FM AMEMBASSY RABAT

TO SECSTATE WASHDC 9051

INFO AMCONSUL CASABLANCA UNN

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E. O. 11652: N/A

TAGS: EIND MO

SUBJECT: IMPLICATIONS OF MOROCCANIZATION DECREES FOR INVESTMENT

REF: RABAT 2214; 2242

1. SUMMARY. FOREIGN BUSINESSMEN SURPRISED AT EXTENT OF MOROCCANIZATION DECREES AND SHORT TIME ALLOWED TO MOROCCANIZE. MOST FOREIGN FIRMS IN ACTIVITIES RESERVED FOR MOROCCANS WILL TRY TO COMPLY WITH DECREES BY TAKING IN MOROCCAN ASSOCIATES BUT OTHERS WILL EITHER PREFER OR BE FORCED TO SELL TO MOROCCANS. POTENTIAL FOREIGN INVESTORS WILL NOW HAVE BETTER IDEA OF GOM'S MOROCCANIZATION POLICY AND MAY PROCEED WITH INVESTMENT PLANS. MOROCCANIZATION, HOWEVER, RISKS TRANSFERRING OWNERSHIP AT EXPENSE OF DISCOURAGING PRIVATE INVESTMENT NEEDED TO ACHIEVE AMBITIOUS GOALS OF NEXT FIVE- YEAR ECONOMIC DEVELOPMENT PLAN.

2. NUMBER OF ACTIVITIES WHICH WERE LISTED FOR MOROCCANIZATION
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IN MAY 8 DECREE CAME AS SURPRISE TO MANY FOREIGN BUSINESSES IN MOROCCO. WHILE BANKS AND INSURANCE COMPANIES HAVE KNOWN FOR SOME TIME THAT THEY WOULD BE EXPECTED TO MOROCCANIZE, MANY OTHERS IN TERTIARY SECTOR WERE UNCERTAIN AS TO WHETHER THEIR ACTIVITIES WOULD BE INCLUDED. MAY 8 DECREE LISTS VIRTUALLY EVERY BUSINESS ACTIVITY IN TERTIARY SECTOR AND EVEN SOME IN PRIMARY AND SECONDARY SECTORS.

3. WHILE MAJOR U. S. INVESTMENTS IN MOROCCO SUCH AS THOSE IN PETROLEUM DISTRIBUTION AND INDUSTRY ARE NOT SUBJECT TO MOROCCANIZATION BY MAY 8 DECREE, U. S. BANKS, INSURANCE FIRMS, IMPORTING FIRMS, AND SOME INDUSTRIES (TRACTOR ASSEMBLY, DETERGENTS) ARE INCLUDED. WHILE BANKS AND INSURANCE FIRMS HAVE KNOWN FOR SOME TIME THEY WOULD BE REQUIRED TO MOROCCANIZE, THEY HAVE DONE LITTLE THUS FAR. EITHER THEY EXPECTED AN EXCEPTION TO BE MADE IN THEIR CASE OR THEY CHOSE TO AWAIT LEGAL REQUIREMENTS. WE ANTICIPATE THAT SOME U. S. FIRMS WILL BE SEEKING GUIDANCE FROM THE EMBASSY IN PARTICULAR WITH REFERENCE TO ARTICLE I OF ROYAL DECREE OF MARCH 2 WHICH APPEARS TO EXEMPT ACTIVITIES FROM MOROCCANIZATION WHICH ARE COVERED BY INTERNATIONAL CONVENTIONS. WE KNOW OF NO AGREEMENT BETWEEN U. S. AND MOROCCO WHICH WOULD EXEMPT U. S. FIRMS FROM MOROCCANIZATION REQUIREMENT.

4. FOREIGN INVESTORS ALSO EXPECTED A LONGER PERIOD IN WHICH TO COMPLY WITH MOROCCANIZATION. OWNERS OF MOST OF THE ACTIVITIES TO BE MOROCCANIZED HAVE ONLY ONE YEAR TO MOROCCANIZE WHEREAS THEY HAD ANTICIPATED THAT PERHAPS THREE TO FIVE YEARS WOULD BE GRANTED. THERE WILL PROBABLY BE CONSIDERABLE COMPETITION FOR SUITABLE MOROCCAN ASSOCIATES AND IN SOME CASES FOREIGN FIRMS MAY PREFER ASSOCIATION WITH SOME GOVERNMENT INSTITUTION SUCH AS THE SOCIETE NATIONALE D' INVESTISSEMENT WHICH IS PARTICIPATING IN SEVERAL FOREIGN FIRMS OR THE CAISSE DE DEPOT ET GESTION WHICH MANAGES PENSION FUNDS.

5. OWNERS OF MANY SMALL VENTURES MAY BE FORCED TO SELL OUT TO MOROCCANS. THEY WILL HAVE PROBLEM OF FINDING BUYER AT FAIR PRICE AND TRANSFERRING DIRHAMS INTO FOREIGN EXCHANGE. IT SEEMS LIKELY THAT THERE WILL BE A CONSIDERABLE EXODUS LIMITED OFFICIAL USE

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OF SMALL BUSINESSMEN AND ESPECIALLY FRENCH AND SPANISH.

6. FUTURE INVESTORS IN SECTORS WHICH HAVE BEEN MOROCCANIZED MUST BE PREPARED TO ACCEPT CONTROL BY MOROCCAN ASSOCIATES EVEN THOUGH FOREIGN INVESTORS MAY PROVIDE FIFTY PERCENT OF EQUITY. WHILE MOST OF THE INDUSTRIAL SECTOR, MINES, HOTELS, AND PETROLEUM DISTRIBUTION ARE NOT INCLUDED FOR

THE MOMENT AND THE PRIME MINISTER HAS STATED THAT THERE WILL BE NO MAJOR CHANGES IN FUTURE, MARCH 2 ROYAL DECREE DOES PERMIT MOROCCANIZATION OF ANY SECTOR. DESPITE THESE DRAWBACKS IT IS POSSIBLE THAT SOME POTENTIAL INVESTORS WILL NOW CONSIDER THAT THE GOM' S POLICY ON MOROCCANIZATION IS SUFFICIENTLY FIRM TO PROCEED WITH PLANS.

7. KING HAS NO DOUBT STRONG AND VALID POLITICAL REASONS FOR PROCEEDING WITH EXTENSIVE MOROCCANIZATION AT THIS JUNCTURE. AT SAME TIME, HOWEVER, PRIME MINISTER HAS INDICATED THAT INVESTMENTS UNDER NEXT PLAN WILL DOUBLE OVER THOSE UNDER LAST PLAN. MOROCCANIZATION MAY MAKE THIS GOAL MORE DIFFICULT TO ACHIEVE BY ENCOURAGING INVESTMENT BY MOROCCANS IN EXISTING ACTIVITIES RATHER THAN IN NEW PRODUCTION. THE RECOVERY OF FOREIGN- OWNED LAND MAY ALSO RISK DECLINE IN AGRICULTURAL PRODUCTIVITY SINCE THIS LAND IS IN EFFICIENTLY- RUN MODERN SECTOR. THE POLICY COULD ALSO HAVE AN ADVERSE EFFECT ON THE BALANCE OF PAYMENTS IF FOREIGN OWNERS OF MOROCCANIZED ACTIVITIES AND LAND ARE ALLOWED TO CONVERT DIRHAMS INTO FOREIGN EXCHANGE AND IF EFFICIENCY OF EXPORT SECTOR DECLINES.
ROCKWELL

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